Prepared for:

New Brunswick Securities Commission

CSA Investor Index ▶▶
New Brunswick Study

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NEW BRUNSWICK
SECURITIES COMMISSION

COMMISSION DES
VALEURS MOBILIÈRES
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1. Summary

The New Brunswick Securities Commission (NBSC) is committed to helping New Brunswick investors 'Invest in Knowing More'. Education is one of the four Strategic Priorities of the NBSC, so when the Canadian Securities Administrators (CSA) commissioned Innovative Research Group Inc. (INNOVATIVE) to conduct the CSA Investor Index, the NBSC decided to use that opportunity to develop a custom study which takes an in-depth look at New Brunswick attitudes and behaviours regarding general investments and financial fraud.

Both studies have three key areas of focus:

- Understanding to what degree respondents invest their money and whether they have the necessary knowledge and skills to invest appropriately.
- Benchmarking respondents' understanding of, and experience with, financial fraud.
- Benchmarking respondents' awareness of their Securities regulators and expectations for them.

The CSA Investor Index is a mixed method study combining a random digit dialling telephone study with an in-depth online study.

- A 5,568-person online study was used to develop a profile of Canadian investors, as well as provide a large sample of Canadians who have actually experienced fraud.
- In addition to the online survey, a national telephone survey of 2,000 Canadians was conducted to determine the incidence rate for particular investment behaviours. This incidence rate was used to weight the online sample, making it representative of the Canadian population.
- A total of 655 interviews were conducted in New Brunswick.

1.1 Overview

On Investing

- Two thirds of all New Brunswick residents have some form of savings, but just one-in-five are active investors. New Brunswick residents are marginally more likely than the Canadian average not to have any savings (33% and 30% respectively) but those who do have savings are as likely to be active investors as other Canadians (22% and 23% respectively).

- Generally, New Brunswick residents have the right attitudes when it comes to investing.
    - New Brunswick residents are generally around the Canadian average for most attitudes with three exceptions:
        - New Brunswick respondents are on average six percent points below Canadians in general in their agreement that *they are confident they know where to look for information* (59% and 65% respectively) and

five points higher in their agreement that *no one should invest without conducting independent research* (92% and 87% respectively).
    - They are seven points less likely to agree that *it is an individual's responsibility to acquire good investing skills (Canada 79% vs. New Brunswick 72%).*

- Canadians give mixed performances when it comes to taking appropriate precautions when making their investment decisions.
    - Again, New Brunswick residents are generally around the Canadian average in their behaviour.
    - The exceptions are consistent with the values that are lower than the national average.
        - New Brunswick investors are less likely to personally research their lastest investment (48% research last investment on average in Canada; 42% in New Brunswick).
        - New Brunswick investors are less likely to be able to explain the risks and benefits of their last investment to others (53% can do so on average across Canada, while only 44% can do so in New Brunswick).

On Fraud

- New Brunswick residents tend to recognize the common indicators of fraud.
- While New Brunswick residents are just as likely (35%) to be approached with an investment fraud as other Canadians, just 3% of those approached have ever invested in a fraud compared to the national average of 11%.
- New Brunswick residents are more likely than the Canadian average to be approached by a stranger on the phone (New Brunswick 36% vs. Canada 27%) and less likely to be approached by someone they trust (e.g. 'introduced to fraud through friend or family member' New Brunswick 12% vs. Canada 16%).
- While New Brunswick residents are less likely to agree that fraud is common in their province (29%), they are still about average compared to other Canadians when it comes to believing they are just as likely to be the victims of investment fraud as anyone else (53%).
- Just 15% of New Brunswick residents say they reported the last fraud attempt they experienced.

On Regulators

- Like other Canadians, regulatory issues are not top-of-mind issues for New Brunswick investors.
- Similar to the other Atlantic provinces, just under one-in-four New Brunswick residents believe their province has a securities regulator.
- Those who have an impression of the New Brunswick Securities Commission tend to have a positive one.
- Banning rule-breakers and educating investors are the highest priorities for regulators tested among New Brunswick residents.

1.2 Key Findings on Investing

Two thirds of New Brunswick residents have some form of savings but just over one-in-five are active investors

- New Brunswick residents are marginally more likely than the Canadian average to have no savings (no savings: New Brunswick 33%, Canada 30%). The CSA Investor Index investor segmentation shows 23% of Canadians are active investors (22% New Brunswick), 27% are passive investors (23% New Brunswick), 20% are non-investing savers (22% New Brunswick) and 30% report having no savings at all (New Brunswick 33%).
    - Across Canada, 60% of those with no savings today say they plan to save in the future while those with no savings in New Brunswick are much more uncertain (45% don't know).

While on average most Canadians have the right attitudes when it comes to investing, New Brunswick residents trail on attitudes related to financial homework

- New Brunswick residents share the Canadian consensus on several key attitudes:
    - Investing attitudes: 93% of New Brunswick residents agree "Whether you contribute to a pension plan or save some other way, it is important to build up your own personal savings and investments" as do 96% across Canada.
    - Eighty-six per cent in New Brunswick believe "Having a financial plan is important for people like me" (88% Canada).
- New Brunswick residents trail other Canadians by small margins on these attitudes:
    - Eighty-seven per cent in New Brunswick believe "You should never make an investment without doing independent research on any new investment opportunity" (92% of Canadians).
    - Fifty-nine per cent in New Brunswick agree "I am confident about where I should look for information to check out investment opportunities' (65% Canada).
    - Seventy-two per cent in New Brunswick agree "It is the responsibility of the individual to aquire the skills they need to make sound investment decisions" (79% Canada).

New Brunswick residents reject most dangerous investing myths

- Sixteen per cent of New Brunswick residents say "One of the best ways to make money in the stock market is to look for inside tips" (19% Canada).
- Eighteen per cent of New Brunswick believe "The only way to make good returns in the stock market is to make risky investments" (18% Canada).
- Just over one in five (22%) New Brunswick residents say "If you don't act immediately on a new investment opportunity you have recently heard about, you may miss a good opportunity" (26% Canada).

Many New Brunswick residents and Canadians lack key investing tools

- While most New Brunswick residents say that having a plan is important, 59% (58% Canadian average) report they do not have a financial plan with clear

investment goals and 57% (55% Canadian average) do not have regular financial advisers.

- However, among those New Brunswick residents who hold stocks, bonds or mutual funds, 82% (86% Canadian average) say they understand how risky their investments are today and 59% (62% Canadian average) have reviewed the level of risk they are prepared to take with their investments within the last year.

Canadians and New Brunswick residents show moderate levels of investment knowledge

- Given three questions to test their investment knowledge, almost all Canadians and New Brunswick residents got more correct answers than incorrect answers (69% national and 60% New Brunswick).
- 21% of both New Brunswick residents and Canadians got all three questions correct.

On average, New Brunswick residents show marginally less confidence in investment decisions than Canadians

- Just under half of New Brunswick residents (47%) say they are confident in making investment decisions compared to just over half (51%) on average across Canada.
    - Among New Brunswick residents who report owning stocks, bonds or mutual funds, 68% are confident when making investments.
- Fifty-nine per cent of New Brunswick residents are confident that they know where to look for information to check out investment opportunities.
    - This is six points below the Canadian average of 65%.
    - Among New Brunswick residents who report owning stocks, bonds or mutual funds, 71% are confident they know where to access information, 6 points below the average confidence of investors across Canada.

Canadians give mixed performances when it comes to taking appropriate precautions in their investment decisions

Looking at the most recent financial investment made by New Brunswick residents who own stocks, bonds or mutual funds:

- Just over four-in-ten (42%) report personally researching the last investment they purchased even though 87% believe one should never make an investment without independent research.
    - As was the case across Canada, almost half of those in New Brunswick who did not personally research their investment bought the investment on the advice of their financial adviser, suggesting they feel that the research can be done by someone else.
- Consistent with the national trend, although 63% of New Brunswick investors took the time to consider the investment before buying, 22% still reported purchasing the investment as soon as they heard about it.
- Nine per cent of New Brunswick investors (10% Canadian investors) report being in a situation where they were told if they didn't act immediately, they might miss a good opportunity.

What drives good investing behaviour for New Brunswick residents?

The study results help us understand more about which factors drive good investing behaviour.

- For both New Brunswick residents and those in the rest of Canada, completely relying on the advice of advisers is the strongest single predictor of good financial behaviour.
- Both overall confidence and confidence in being able to find information to make sound investment decisions are strong predictors of good financial behaviour.
- Understanding your risk tolerance is another key driver of good practice for New Brunswick residents.
- Believing in the importance of independent research leads to good financial practices.
- Finally, men and property owners are more likely to follow good financial behaviour than are women and those who do not own property.
- One of the few differences between New Brunswick residents and the rest of Canada is the role of language. In Canada at large, Francophones are less likely to demonstrate good financial behaviour, whereas in New Brunswick mother tongue has no bearing on whether or not residents are more likely to exhibit good financial behaviour.

1.3 Key Findings on Fraud

New Brunswick residents tend to recognize the 'red flags' of fraud

- Although there was some confusion regarding the CDIC deposit insurance, most potential red flags of a fraudulent investment were readily recognized by New Brunswick residents.

Fraud attempts: a common experience

- New Brunswick's experience with attempted fraud is almost exactly on the national average with just over one-in-three (35%) claiming to have been approached or offered a potentially fraudulent investment opportunity.
    - Consistent with the national trend, most New Brunswick residents who report being approached with an investment fraud have been approached several times.
    - Spam email is the most common approach.
    - A telephone call from a stranger is particularly common among fraud attempts in New Brunswick (36%).
    - Being introduced to a scam artist through a friend, relative or neighbour is also a common means of being introduced to fraud (12%).
    - Very few scam artists who approach New Brunswick residents have a relationship of trust with their target (3%).
- New Brunswick residents are much less likely to have been victims of fraud than the national average.
    - Just 3% of New Brunswick residents who were approached with financial fraud report having invested in a fraud, compared to the national average of 11%.
    - Even with the over sample in New Brunswick, there were only 11 cases, making it impossible to draw any comparisons between New Brunswick's experience and the national experience.

Despite these findings, Canadians do not see fraud as a common or personal threat

- Just over half of New Brunswick residents agree (53%) that they are just as likely to be a victim of investment fraud as anyone else; this number is slightly higher than Canada as a whole, despite a lower incidence of successful frauds.
- Only 29% of New Brunswick residents believe investment fraud is common in their province.

Reporting behaviour fails to match beliefs

- While 86% of New Brunswick residents agree it is important to report even the suspicion that someone has approached them with a fraud …
- … only 15% reported their own experiences with attempted fraud.
- This low report rate is consistent with the national average of 14%.

What drives likelihood of being a fraud victim?

It is very hard to predict who will be a victim of fraud, and finding indicators is particularly challenging among New Brunswick residents, since there is such a low rate

of successful frauds. The national results indicate that almost anyone can be a victim, regardless of the amount or nature of their assets, how much they know about investing or how careful they are in their everyday investments.

The CSA Investor Index study reveals that the key indicator of likelihood to be a victim of fraud is who approaches you. If you have a friend or financial advisor who wants to defraud you, or if anyone who you are particularly likely to trust wants to defraud you, you could be a victim.

Our findings show that there are a few characteristics of people which make them slightly more likely to be victims – men, people confident in their investing skills, and those open to the argument that they need to act immediately or they could lose their opportunity. However, the reality is that women, people who are less confident, and those resistant to the "act now" pitch are also victims, just with a little less frequency.

1.4 Key Findings on Regulatory Agencies

Regulator issues are low on investor issue agenda

- The three top concerns for investors – market volatility, return on investment and having enough savings for retirement - have few implications for securities administrators.
- Seven per cent of New Brunswick investors mention market transparency.
- Only 6% of investors mention investor education as their most important issue.

Only one in four believes there is a securities regulator in New Brunswick

- Consistent with the findings in other Atlantic provinces, only 24% say there is a provincial agency responsible for regulating financial investments in New Brunswick.
    - Awareness in the other Atlantic Provinces is at 23%.

Aided awareness is also low

- Just over one-in-seven residents in New Brunswick are very familiar (4%) or somewhat familiar (11%) with their provincial regulator.
- 45% report they have not heard of the agency.

Positive impression of regulator among those with a firm opinion

- Seventy-nine per cent either don't know what their impression of New Brunswick's regulator is or claim it is neither favourable nor unfavourable.
- Among those with an impression, favourables (17%) outweigh unfavourables (3%) by a five to one margin.

Just under half believe regulators can ban scam artists from selling investments

- Forty-five per cent say it is true that provincial regulators can ban fraud artists from selling investments, while only 15% believe that it is false.
    - However, there exists no strong relationship between this belief and an individual's likelihood of reporting investment fraud attempts.

Banning rule breakers tops New Brunswick priorities for regulators

- 67% say it is extremely important to ban anyone from selling investments if they break the rules.
- 61% say it is extremely important to educate investors to better protect themselves against fraud.
- 48% say it is extremely important to jail anyone who breaks the rules.
- 37% say it is extremely important to set the rules of the province's investment community.